

Estimating the Cost of Purchasing Service Credit

Public Employees' Retirement System • Teachers' Pension and Annuity Fund

The cost of purchasing service credit is based on your nearest age at the time the Division of Pensions and Benefits receives your purchase application and the higher of your current annual base salary or highest fiscal year (July 1 to June 30) base salary as a member of the retirement system. For most members, the cost of the purchase will normally increase with an increase in your age and/or salary.

You may purchase service credit:

- in one lump-sum payment; or
- by having extra payroll deductions withheld from your pay (the minimum deduction must be at least one-half of your rate of pension contribution over a maximum of 10 years and includes interest of 8.25 percent); or
- by paying a single down payment and paying the remainder through payroll deductions.

See Fact Sheet #1, *Purchasing Service Credit*, for a detailed explanation of the various types of service eligible for purchase. You do not have to purchase all of the eligible service. Partial purchases are permitted.

When you agree to purchase service credit through payroll deductions, the Division of Pensions and Benefits assumes that you will complete the purchase and credits your account with the entire amount of service. Once you have given authorization to purchase service credit to the Division, you cannot rescind a purchase and receive a refund of any payments. You may cancel future deductions and have your service credit prorated for the amount previously purchased.

Cancellation requests must be made in writing to the Adjustment Section, Division of Pensions and Benefits, PO Box 295, Trenton, NJ 08625-0295. Your cancellation and prorate will automatically be projected into the next payroll certification date (approximately one month for employees whose contributions are reported monthly to the Division or three

pay periods for employees whose contributions are reported to the Division on a biweekly basis).

Only members who have applied for retirement can request a prorate for a *future* date. Otherwise, if you retire before completing all required payments, you will automatically receive prorated credit for the amount of service actually purchased or you can pay the balance and receive full credit.

You may obtain a quotation of the service credit you are eligible to purchase and the cost on that purchase by submitting an *Application to Purchase Service Credit* to the Division of Pensions and Benefits. This form is available from your employer or by contacting the Division of Pensions and Benefits. You can also download the application from the Division of Pensions and Benefits Web site: www.state.nj.us/treasury/pensions

You can receive an *estimate* of the cost of purchasing service credit by calling our Automated Information System at (609) 777-1777 or by using the online purchase calculator on the Division of Pensions and Benefits Web site: www.state.nj.us/treasury/pensions

Before you submit your application to purchase service credit, you may want to estimate the cost yourself. Please follow the instructions below to determine the cost of your purchase.

DETERMINING THE COST OF PURCHASING SERVICE CREDIT

Using the chart, on page 3 of this fact sheet, locate your **nearest age** and the corresponding purchase factor for that age. For example, if you are 35 years and 5 months of age at the time of your request, your nearest age is 35 years of age and the corresponding factor is .039. If you are 35 years and 6 months of age at the time of your request, your nearest age is 36 years of age and the corresponding factor is .040.

Example: You wish to buy 3 years and 6 months of eligible temporary service you rendered to your current employer **before enrollment in the retirement system**. You are 35 years and 6 months of age at the time of your request and your current annual base salary is \$40,000. (This is the highest salary you have earned during your membership in the retirement system.)

To calculate the cost of this purchase, multiply the factor corresponding to the age of 36 (.040) times the annual salary (\$40,000). This equals \$1,600. Multiply \$1,600 times the number of years being purchased (3.5). The estimated total lump-sum cost of this purchase is \$5,600.

Shared Cost Purchase

The above procedure can be used to calculate the costs of the following *shared cost* purchases: temporary service, former membership in a New Jersey State-administered retirement system, leaves of absence, and out-of-state service.

Full Cost Purchases

To calculate the purchase cost to purchase military service, local retirement system, and U.S. Government civilian service, you use the same procedure **except you must double the resulting cost**. In the example used, the *full cost* for these types of purchases would be \$11,200 ($0.040 \times \$40,000 \times 3.5 \times 2$).

A PUBLICATION OF THE NEW JERSEY DIVISION OF PENSIONS AND BENEFITS**WORKSHEET****SHARED COST PURCHASES**

To estimate the cost of purchasing temporary service, former membership in a New Jersey State-administered retirement system, uncredited service, leaves of absence, or out-of-state service, use the worksheet below:

$$\frac{\text{Age factor} \times \text{Highest Annual Salary}}{\text{X}} = \text{Cost of 1 Year}$$

$$\frac{\text{Cost of 1 Year} \times \text{Number of Years Purchased}}{\text{X}} = \text{Total Cost}$$

FULL COST PURCHASES

To estimate the cost of purchasing military service, U.S. Government civilian service, or local retirement system service use the worksheet below:

$$\frac{\text{Age factor} \times \text{Highest Annual Salary}}{\text{X}} = \text{Cost of 1 Year of Shared Cost Purchase}$$

$$\frac{\text{Cost of 1 Year} \times \text{Number of Years Purchased} \times 2}{\text{X}} = \text{Total Cost}$$

Age at Purchase	Purchase Factor*	Age at Purchase	Purchase Factor*	Age at Purchase	Purchase Factor*	Age at Purchase	Purchase Factor*
20	0.031	33	0.038	46	0.050	59	0.071
21	0.032	34	0.039	47	0.051	60	0.073
22	0.032	35	0.039	48	0.052	61	0.072
23	0.033	36	0.040	49	0.054	62	0.071
24	0.033	37	0.041	50	0.055	63	0.070
25	0.033	38	0.042	51	0.057	64	0.068
26	0.034	39	0.043	52	0.058	65	0.067
27	0.034	40	0.044	53	0.060	66	0.066
28	0.035	41	0.045	54	0.061	67	0.064
29	0.036	42	0.046	55	0.063	68	0.063
30	0.036	43	0.047	56	0.065	69	0.062
31	0.037	44	0.048	57	0.067	70 (and over)	0.060
32	0.037	45	0.049	58	0.069		

**The cost factors have been rounded, your actual cost may vary.*

This fact sheet has been produced and distributed by:

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This fact sheet is a summary and not intended to provide total information.

Although every attempt at accuracy is made, it cannot be guaranteed.